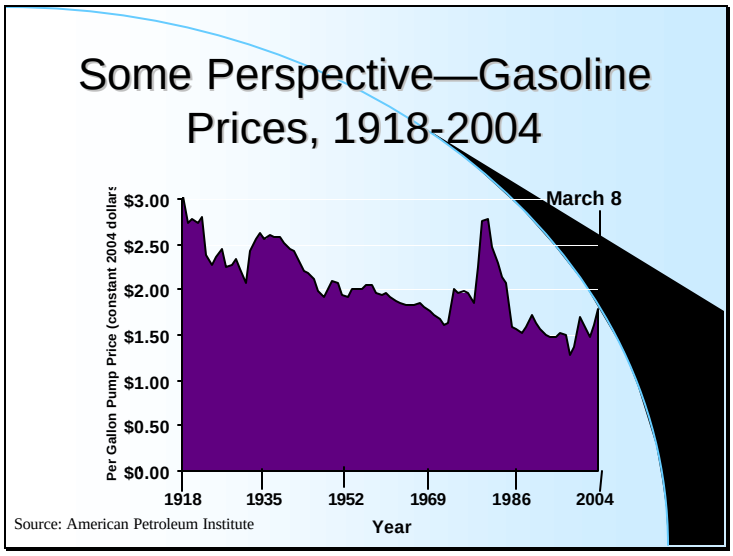
Slide 1

Thank you for inviting me here to discuss the state of the gasoline market. WSPA is sensitive to consumer concerns about prices, and I hope to shed some light on what's been going on in the marketplace. I also want to highlight some of the factors that can influence how and why the market behaves the way it does.

While there have been many news stories in recent days about gasoline prices increasing across the country, the fact is that gasoline prices here in California have come down over the past two weeks, and according to the U.S. Energy Information Administration are down some 5 cents per gallon from one year ago.

The fact is gasoline prices go up and they go down based on changing conditions in the marketplace. I'd like to take a few minutes to put gasoline prices in perspective.

Slide 2

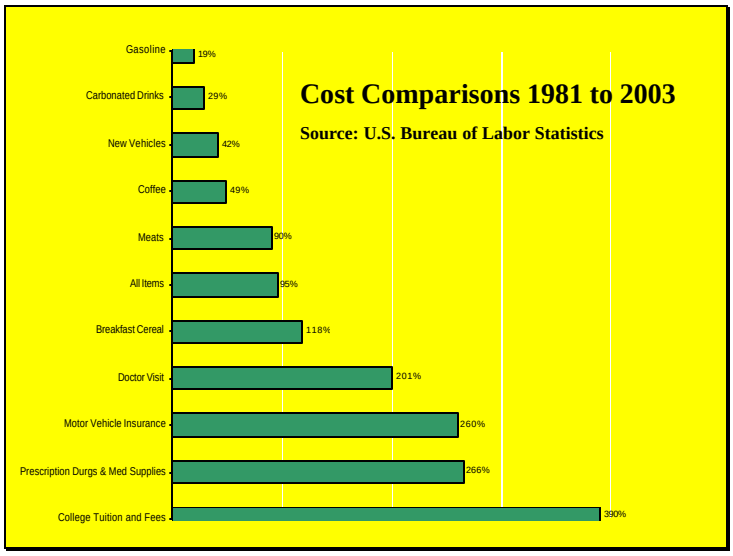


This slide presents national gasoline prices, adjusted for inflation, from 1918 through March 8 of 2004. As you can see, gasoline prices in real dollars have actually gone down during this period, and have declined quite dramatically since they spiked during the late 1970's and early 1980's, when prices were controlled by the federal government.

Even as gasoline prices declined during this period, gasoline and other petroleum products have become more sophisticated and cleaner burning.

In addition, cleaner-burning gasoline formulations required by the federal government and California's Air Resources Board are major reasons for the significant improvements in air quality enjoyed in our state. In fact, California's cleaner-burning gasoline is the cleanest in the world, and provides the emission-reduction equivalent of taking 3.5 million cars off the road every day.

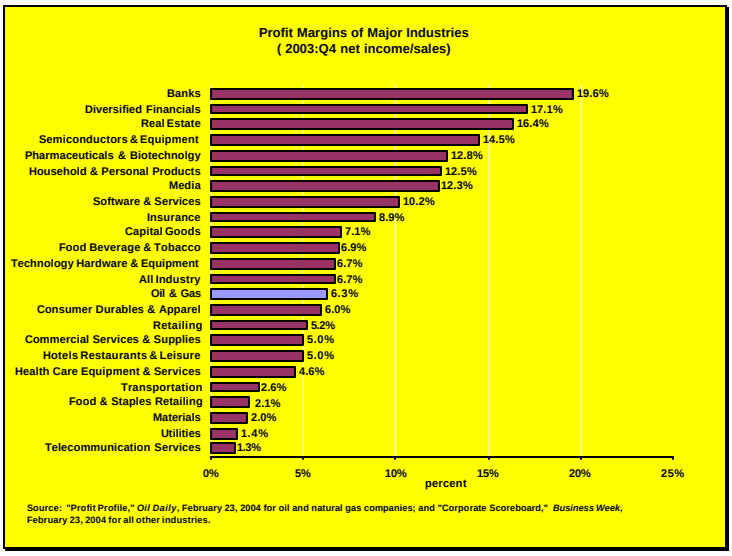
Slide 3



Another way of putting gasoline prices in context is comparing them to the cost of other goods and services we use every day. As you can see from this chart, prepared by the US Bureau of Labor Statistics, over the last 22 years gasoline costs have risen 19%. This is far less than many other goods and services that are important in our daily lives. For example:

- The average cost increase over the period for all items is 95%
- On the lower end, new vehicles costs are up over 40%, and coffee price has increased almost 50%
- Above the average, breakfast cereal is up almost 120%, while motor vehicle insurance has increased over 250%
- And, tuition and fees we pay for our children's college educations have gone up almost 400%!

Slide 4



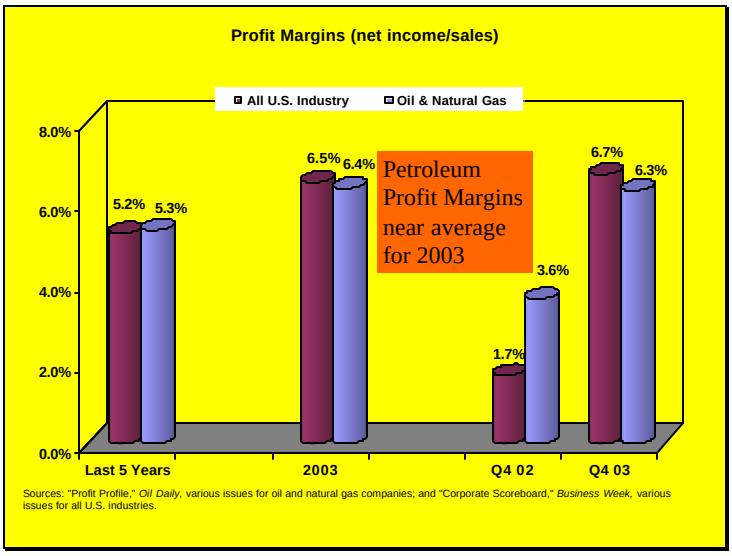
When there are changes in the marketplace and gasoline prices increase, our members get questions about oil industry profits.

I would like to provide the committee with a few facts about profits. This slide, using data published by *BusinessWeek* Magazine, compares profit margins for oil and natural gas companies for the last available period - the fourth quarter of 2003 - to all U.S. Industry and a few specific industry sectors.

Here are some of the facts:

- Using Net Income divided by sales, the average profit margin for all US industry was 6.7%
- The Oil and Gas industry averaged 6.3%
- On the lower end of the scale, the average profit margin for the Food and Staples Retailing sector was 2.1%
- And, at the higher end, the Media profit margin was 12.3% and Banks were at almost 20%

Slide 5

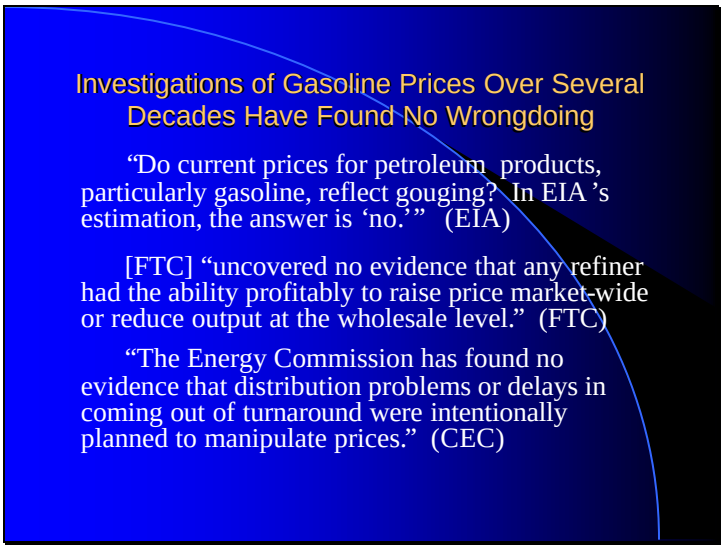


This slide demonstrates how industry profit margins have fared over the longer term.

According to *Business Week*, for full-year 2003, the profit margin for petroleum companies was 6.4%, near the All US Industry average of 6.5%.

Over a five-year period, profit margins for petroleum companies were about 5.3% -- or, virtually level with the 5.2% average for all U.S. companies. This is equivalent to 5cents on the dollar.

Slide 6



Some Committee members and others have called for additional investigations of our industry. Our members stand ready to cooperate.

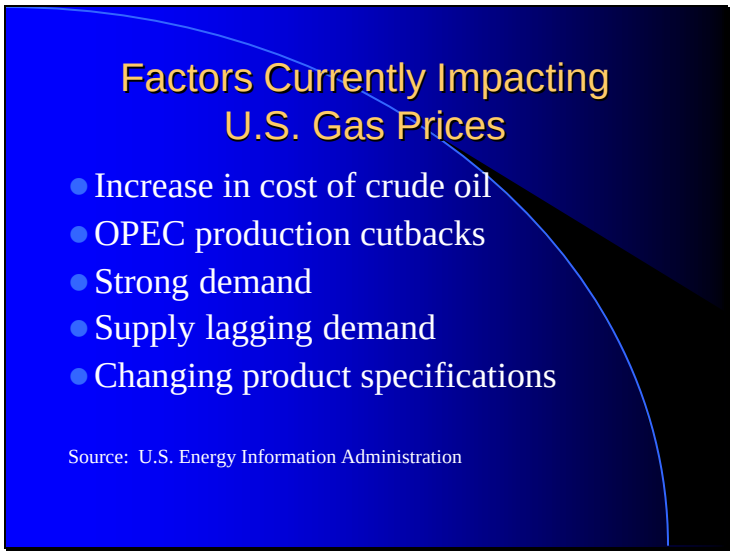
As a matter of fact, there have been some 29 state and federal investigations over several decades; they have found the petroleum industry to be competitive and in compliance with anti-trust laws.

Let me review just three examples of these by focusing on the slide.

Read the quotes.

Overall, there has not been one finding of wrongdoing during any of the 29 investigations.

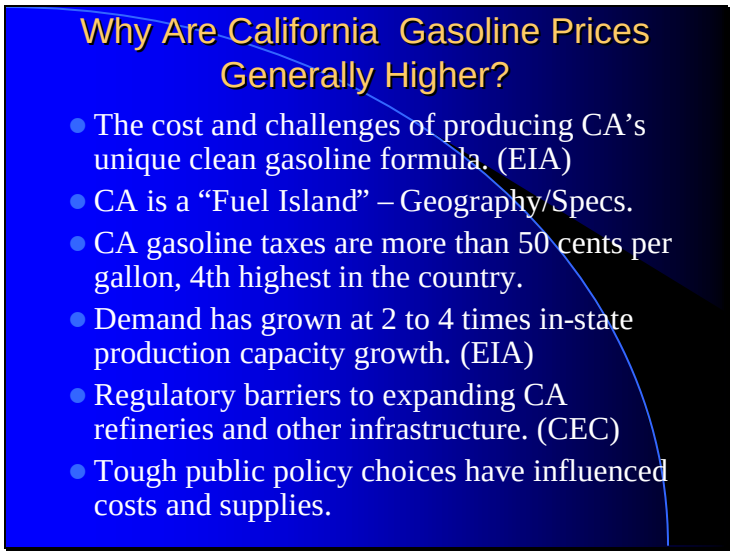
Slide 7



It's important to note that increasing gasoline prices are not unique to California – in fact, they've gone up across the country. I'd like to spend a little time reviewing some of the market factors, as identified by EIA, that affect gasoline prices.

- Marker crude oil cost has increased 18 to 20 cpg since December
- OPEC has announced its intention to proceed with April 1st production cuts
- Worldwide demand has been strong; and in the US, through March 22nd, total demand for refined products is up versus the same period last year, as is the demand for gasoline
- Overall, refinery increases in production capacity are not keeping pace with consumer demand for transportation products, with imports increasingly needed to fill the gap
- Product specification changes, particularly for gasoline, have increased the cost of producing cleaner-burning fuels; there are currently18 different reformulated gasoline specifications across the US, making it more difficult for regional transfer of supplies

•Slide 8



California prices historically have been higher than the national average.

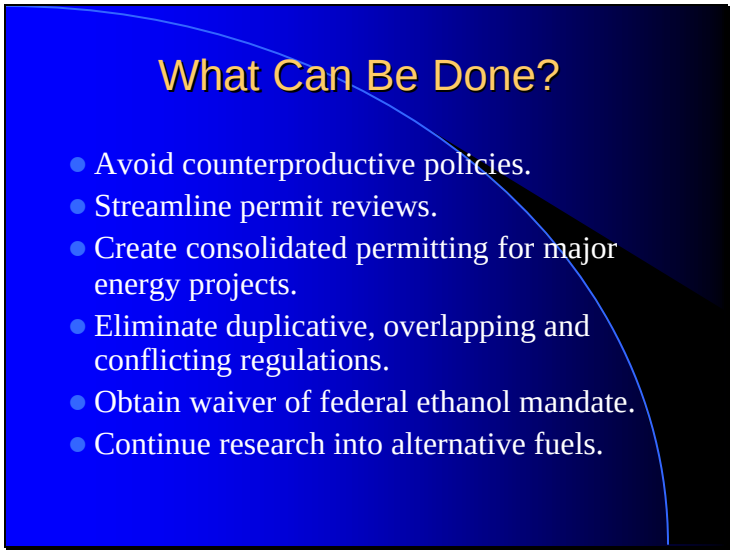
Even under the best of conditions, prices here and in the other western states generally tend to be higher than those in the rest of the country. Both the EIA and CEC have commented on why this is the case.

Let me review the factors contributing to the California dynamic. **[Do the bullets]**

Tough public policy choices in the areas of environmental improvements and land use have impacted the current costs and supplies of petroleum products. My comments are not intended to be critical of the choices - rather they just illustrate some of the impacts of those choices, including the effect on investment decisions.

For example, our cleanest burning gasoline on the planet costs more to produce and is not readily available outside our state. Limiting offshore drilling has resulted in lower overall CA crude production and more imports as our existing onshore and offshore production declines. And, bills like SB 288 impact our industry's ability to utilize cost saving New Source Review reforms.

Slide 9



Over the past 20 years, the California petroleum industry has met the challenge of reliably supplying our customers with products in the face of growing demand. We have done this while making the cleanest gasoline on the planet at the cleanest refineries anywhere, and while selling that product at competitive prices.

We believe our members can continue to meet this challenge, but we need your help to reduce barriers that tend to discourage companies from investing in CA.

These barriers stop or slow down construction of new petroleum facilities and upgrades to existing equipment, that together would allow our member companies to produce more gasoline here, or to import blending components or finished product from other areas. Additionally as with any industry, projects must also meet shareholders' and Boards' economic criteria in order for implementation to proceed.

What can be done?

Avoid counterproductive policies. State government has been sending less than positive signals to the business community in general and to our industry in particular, that it does not want companies to invest in new facilities and new jobs in California. High-energy costs, sky- rocketing workers compensation costs and the high costs of complying with environmental regulations are making it difficult for investments, companies and jobs to remain in California.

In addition, our industry must constantly fight back legislative proposals that would dramatically increase the cost of doing business here. Those proposals include a billion dollar per year refinery gate tax that so far has been defeated, but looms as a potential cost.

They also include a lead abatement program that is costing our companies millions per year, even though lead in gasoline was phased out in the 1970's. And, they include very high tax levels that could increase even more if a proposed November ballot measure to increase property taxes by $5 billion a year passes.

Streamline permit reviews. Permit streamlining and establishing policies to ensure timely processing of permits by state agencies, local air districts and regional water boards are critical components of improving the state's business competitiveness.

The Energy Commission's Integrated Energy Policy Report (IEPR) contains specific recommendations for permit system streamlining. Another of the critical areas for permitting is New Source Review. Rather than react hostilely to federal NSR reforms, as the Legislature did by passing SB 288 (Sher), we urge the Legislature instead to provide authority to CARB and the local districts to adopt those federal NSR reforms that would promote permitting of critical energy projects without increasing emissions.

Here are a few examples of situations we have encountered in the existing process:

- It took 2 years to obtain permits and install compressors to recover flare gases to improve cost-recovery and reduce emissions to the environment. This is not an unusual situation, as permits are backlogged.
- Throughput limits are imposed to restrict production and storage of product, even when emission impacts are minimal or non-existent.
- Companies are discouraged from using flares for start-up and shutdown efficiency, keeping production off-line longer, regardless of the emissions impact.
- CEQA challenges to CBG2, MTBE phase out and ULSD projects have caused costly delays or even cancellation of proposed projects.
- New Source Review was required simply to change a catalyst to raise octane and expand volume of gasoline available to consumers, which caused the refiner to abandon the project.

Create consolidated permitting for energy projects. We strongly urge the development of a consolidated, permitting agency whose intervention could be requested by project proponents when duplicative or counterproductive regulatory requirements endanger a project.

This agency (perhaps the CEC) could manage the permitting of major energy facilities such as: additional electrical generation; significant oil and natural gas production increases; new LNG terminals and facilities; additional pipelines; and, refinery capacity additions or facility expansions.

Eliminate duplicative, overlapping and conflicting regulations. The state should pursue opportunities to eliminate overlapping, conflicting and duplicative regulatory processes that add cost without adding value to environmental protection. This can be done without sacrificing environmental standards, or diminishing local control over land use decisions that affect community values.

Obtain a waiver of federal ethanol mandate. WSPA has long supported the state of California's efforts to exempt the state from the federal EPA's requirement that gasoline include an oxygenate. Since the removal of MTBE from CA's gas formula, the only viable oxygenate additive is ethanol, which entails additional costs and which reduces our production capacity even more.

California's air quality agencies agree that we can continue to produce the cleanest gasoline on the planet without the addition of ethanol – a waiver would provide the flexibility for CA refiners to produce clean fuel as efficiently and cost-effectively as possible.

Continue research into alternative fuels. In addition to removing barriers to increasing gasoline production, another key component of successful future energy policy will be the introduction of alternative fuels, which will give consumers more choices and help California meet its ever-increasing demand.

WSPA's member companies are actively engaged in research in the areas of hydrogen fuel cells and gas to liquids technology.

In conclusion, the member companies of WSPA look forward to continuing to work with the State of California to provide a reliable supply of clean, efficient and affordable transportation fuels now and for the future.

Thank you for giving me the opportunity to speak with you today.